HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Montréal housing market to grow in 2010

The housing market recovery that got under way in 2009 will continue in 2010, in the Montréal census metropolitan area (CMA). The first months of 2010 were marked by strong growth on the residential market. This vigorous activity resulted from the improved economic outlook, some catching up from the low level of activity registered at the beginning of 2009 and also the moving up of the housing demand caused by the anticipated increase in mortgage rates. The level of activity is now exceptionally high on the resale market, and the pace of construction is sustained on the new home market. The changes in the financing environment will dampen demand over the course of the year. In the end, 2010 will see housing activity grow in Montréal, on both the resale and new home markets. Next year, with the catching up and the moving up of purchases having come to an end, the market will decline slightly, even though economic growth will be more sustained.[1]

More favourable economic conditions

In Quebec, like in Canada, the economic environment has continued to improve since the last issue of this report was released in the fall of 2009. According to our latest forecasts, Quebec's economic growth will reach about 2.6 per cent in 2010 and 3.0 per cent in 2011.

As employment usually reacts to an economic recovery with a certain lag, the Montréal job market started gaining strength at the end of 2009 and, more so, at the beginning of this year. The labour market has effectively regained the jobs lost during the period of economic contraction and has even embarked on a new expansion phase. This job creation brought down the unemployment rate to 9.0 per cent in April (this rate had peaked at 9.6 per cent in July 2009).

For 2010, we forecast that employment growth will reach 1.7 per cent and that the unemployment rate will remain rather stable, at 9.0 per cent. The proportion of unemployed persons will stay relatively high on account of a steady increase in the labour force. In 2011, employment

[1] The forecasts included in this document are based on information available as of April 23, 2010.

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growth will be more moderate (+1.2 per cent), and the unemployment rate will fall to 8.3 per cent. The increase in employment, although relatively modest, will still support housing demand in 2010 and 2011.

Mortgage rates

The Bank of Canada cut the target for the overnight rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Immigration on the rise

The Montréal CMA will continue to welcome a growing number of immigrants in 2010 and 2011, which will raise total net migration to 44,400 people in 2010 and then to 48,000 in 2011, for increases of 12 per cent and 8 per cent, respectively. These gains will follow an estimated net migration level of 39,492 people in 2009, up by 31 per cent over 2008. The strong growth in net migration observed in recent years is in line with the provincial government's new immigration targets. Higher immigration will primarily support the rental market, as most newcomers first choose to rent a dwelling.

Resale market: steady growth in prices in 2010

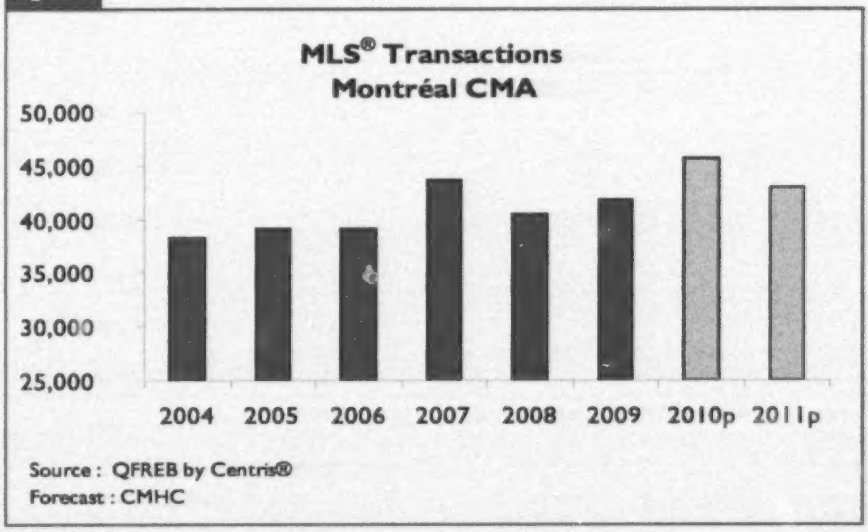
In 2009, after experiencing a significant decline in the first quarter, the resale market posted a strong rebound starting in the spring. In addition to the release of the pent-up demand, earlier-than-planned purchases were also made during the year, in response to the anticipated rise in mortgage rates. The year 2009 finally ended with an increase of 3.4 per cent in MLS® sales, and the exceptionally vigorous activity on the resale market maintained its momentum in the first quarter of 2010.

This strong demand, supported as well by the better employment outlook, comes at a time when housing supply is limited on the market, as a result of the robust demand and decrease in new listings throughout 2009. The relatively few new listings can be explained in part by the slowdown in demographic growth among people aged 75 years or older, resulting from the low birth rate during 1930s. Consequently, fewer seniors than before are putting their homes up for sale to change tenure options.

The limited supply on the resale market since the spring of 2009, combined with the strong demand, has been favouring sellers and has put upward pressure on prices. These conditions will continue in 2010 but will ease starting in the second quarter, as the earlier-than-planned purchases will wane with the new rise in mortgage rates. In 2010, 45,700 MLS® transactions will be registered, and the average price MLS® will post a 6.6 per cent increase, reaching $293,000. Resale market activity will be sustained in all geographic sectors of the Montréal CMA.

The return to a more balanced market will begin during the second

Figure 1



half of 2010 and continue in 2011, since demand will be less vigorous and supply will increase progressively as a result of the growth in home prices. Based on the principle of communicating vessels, potential demand in 2011 will be limited by the sales registered in 2009 and 2010. In 2011, the market will post 43,000 MLS® transactions, for a decrease of 5.9 per cent from 2010. Despite this decrease, the volume of resales will remain high, as housing demand will be supported by the greater strength of the job market. The increase in prices in 2010 will cause active MLS® listings to rise by 15.3 per cent in 2011, when they should reach 23,400 units. Supply will better keep up with demand, and a less pronounced price increase can then be expected. The average MLS® price will therefore reach $298,000, up by 1.7 per cent.

New home market stimulated by scarce supply of existing homes in 2010

After falling by 12 per cent in 2009, housing starts picked up in the last few quarters, echoing the dynamic activity on the resale market. Demand for new homes is being stimulated by the effects of the economic recovery, the historically low mortgage rates and the scarce supply on the resale market.

In all, 20,500 new dwellings will get under way in 2010, up by 6.5 per cent over the 19,251 starts enumerated last year. Next year, residential construction will slow down, as 19,100 starts are anticipated, for a decrease of 6.8 per cent. In general, the starts totals forecast in the metropolitan area for 2010 and 2011 will be below the levels registered over the years from 2003 to 2007, but more in line with the household formation rate.

In 2010, the growth will be greater for single-detached houses (+19.4 per cent) than for multiple-unit housing (+1.4 per cent). As single-detached home starts declined considerably in 2009, this market segment will benefit the most from the effect of the limited supply on the resale market in 2010.

Even with the strong growth in 2010, the volume of single-detached housing starts forecast for this year (6,500 units) will still be below the average for the last decade (around 8,000 units per year). The sustained increase in prices in recent years has prompted many buyers, especially those purchasing their first property, to opt for more affordable homes. As a result, single-detached houses will account for about 30 per cent of the dwellings started in 2010, compared to more than 50 per cent in the early 2000s. In 2011, the resale market will be more balanced, which will cause fewer buyers to turn to the new home market. In all, foundations will be laid for 5,700 housing units, for a decrease of 12.3 per cent from 2010.

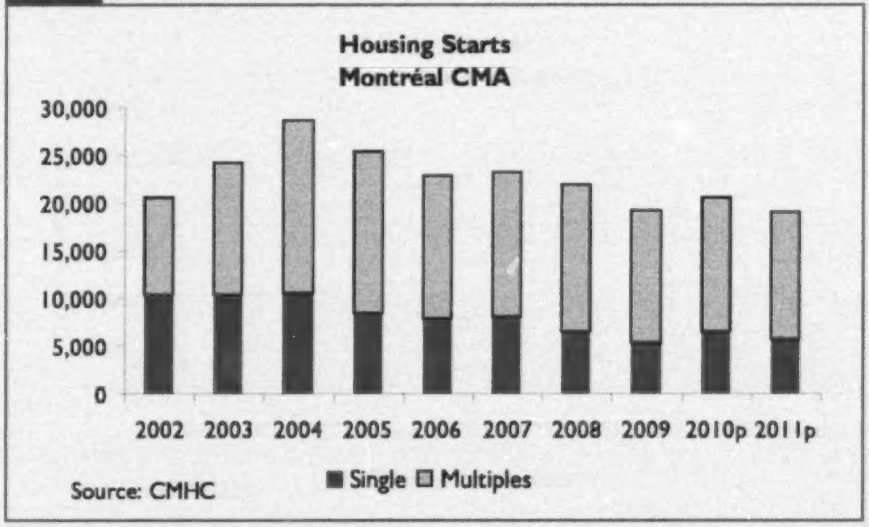
In the multiple-family housing segment, 14,000 dwellings will be started in 2010 and 13,400 more in 2011, for an increase of 1.4 per cent and a decrease of 4.3 per cent, respectively. As semi-detached and row home building and condominium construction registered the smallest decreases in 2009, they will post less significant gains. In 2010 and 2011, more than 10 per cent of the dwellings started in the Montréal metropolitan area will be semi-detached or row homeowner houses and nearly 40 per cent will be condominiums.

According to our forecasts, rental housing starts should fall in 2010 and 2011. The seniors' housing market, the driving force behind activity in this segment since the middle of the last decade, is currently going through an absorption phase. Faced with rising vacancy rates and a lower demand, retirement home developers have recently slackened the pace of construction.

Rental market: vacancy rate on the rise

The rental housing vacancy rate in the Montréal CMA will rise marginally,

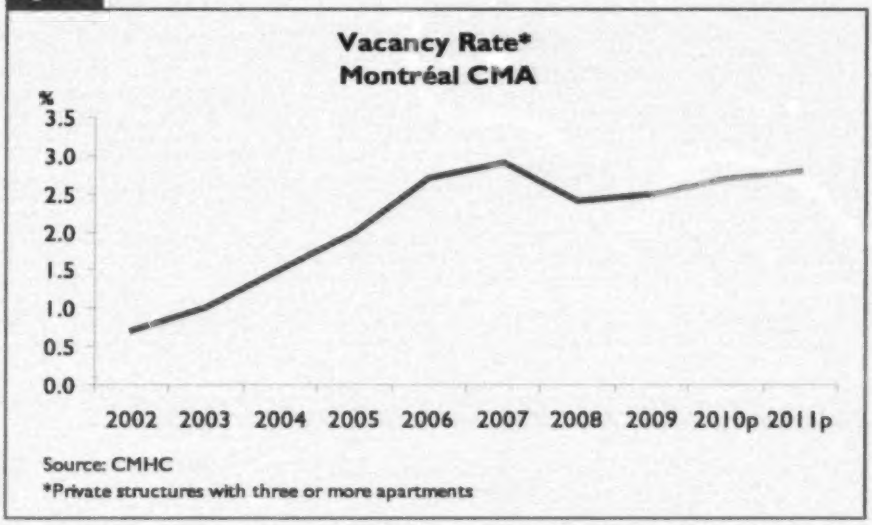
Figure 2



reaching 2.7 per cent in the fall of 2010, compared to 2.5 per cent in October 2009. While on the rise, the vacancy rate has been relatively stable since 2006. In 2010, the rental market will be influenced by exceptionally low mortgage rates, which favour homeownership, and by the less dynamic job market for people aged from 15 to 24 years. The rental market will still be supported by high net migration, which will almost fully offset the effects of the previously noted factors. There is no doubt that immigration will limit the increase in the vacancy rate and keep the rental market in its current state.

In 2011, the movement to homeownership will still be relatively significant despite the rise in mortgage rates, and youth employment will not yet have fully recovered. The market will nevertheless continue to be supported by high net migration, while supply will increase slightly. The vacancy rate will therefore rise marginally once again and reach 2.8 per cent.

Figure 3



Source: CMHC
*Private structures with three or more apartments

Forecast Summary Montréal CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market[1]							
MLS® Sales	43,667	40,441	41,802	45,700	9.3	43,000	-5.9
MLS® Active Listings	21,544	23,202	23,431	20,300	-13.4	23,400	15.3
MLS® Average Price ($)	251,423	262,616	274,842	293,000	6.6	298,000	1.7
New Home Market							
Starts:							
Single-Detached	8,013	6,602	5,446	6,500	19.4	5,700	-12.3
Multiples	15,220	15,325	13,805	14,000	1.4	13,400	-4.3
Semi-Detached	758	922	1,010		s.o.		s.o.
Row/Townhouse	665	1,034	1,231		s.o.		s.o.
Apartments	13,597	13,264	13,084		s.o.		s.o.
Starts - Total	23,233	21,927	19,251	20,500	6.5	19,100	-6.8
Average Price ($):							
Single-Detached	310,127	340,757	355,089	366,000	3.1	373,000	1.9
Semi-Detached	213,425	239,340	257,248	270,000	5.0	278,000	3.0
New Housing Price Index (% chg.)	4.3	4.9	2.3	2.3	-	2.1	-
Rental Market[2]							
October Vacancy Rate (%)	2.9	2.4	2.5	2.7	-	2.8	-
Two-bedroom Average Rent (October) ($)	647	659	669	678	-	685	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	1,902,600	1,900,100	1,880,400	1,912,800	1.7	1,935,000	1.2
Employment Growth (%)	2.5	-0.1	-1.0	1.7	-	1.2	-
Unemployment rate (%)	7.0	7.4	9.2	9.0	-	8.3	-
Net Migration[3]	25,495	30,068	39,492	44,400	12.4	48,000	8.1

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

[1] Source: QFREB by Centris®

[2] Privately initiated rental apartment structures of three units and over

[3] Migration data for 2009 is a forecast

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®. CMHC Forecast (2010-2011)

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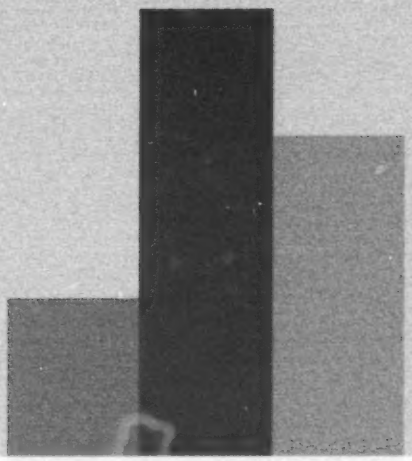

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